

Farm Credit Administration

§615.5133

(l) *Weighted average life (WAL)* means the average time until the investor receives the principal on a security, weighted by the size of each principal payment and calculated under specified prepayment assumptions.

(m) *You* means a Farm Credit bank, association, or service corporation.

[64 FR 28895, May 28, 1999]

§615.5132 Investment purposes.

Farm Credit Banks, banks for co-operatives and agricultural credit banks are authorized to hold eligible investments, listed under §615.5140, in an amount not to exceed 30 percent of the total outstanding loans of such banks, for the purposes of complying with the liquidity reserve requirement of §615.5134, managing surplus short-term funds, and for managing interest rate risk under §615.5135.

[58 FR 63056, Nov. 30, 1993]

§615.5133 Investment management.

(a) *Responsibilities of Board of Directors.* Your board must adopt written policies for managing your investment activities. Your board of directors must also ensure that management complies with these policies and that appropriate internal controls are in place to prevent loss. Annually, the board of directors must review these investment policies and make any changes that are needed.

(b) *Investment policies.* Your board's written investment policies must address the purposes and objectives of investments, risk tolerance, delegations of authority, and reporting requirements. Investment policies must be appropriate for the size, types, and risk characteristics of your investments.

(c) *Risk tolerance.* Your investment policies must establish risk limits and diversification requirements for the various classes of eligible investments and for the entire investment portfolio. These policies must ensure that you maintain appropriate diversification of your investment portfolio. Risk limits must be based on your institutional objectives, capital position, and risk tolerance. Your policies must identify the types and quantity of investments that you will hold to achieve your objectives and control credit, market, li-

quidity, and operational risks. The policy of any association or service corporation that holds significant investments and each bank must establish risk limits for the following four types of risk.

(1) *Credit risk.* Investment policies must establish:

(i) Credit quality standards, limits on counterparty risk, and risk diversification standards that limit concentrations based on a single or related counterparty(ies), a geographical area, industries or obligations with similar characteristics.

(ii) Criteria for selecting brokers, dealers, and investment bankers (collectively, securities firms). You must buy and sell eligible investments with more than one securities firm. As part of your annual review of your investment policies, your board of directors must review the criteria for selecting securities firms and determine whether to continue your existing relationships with them.

(iii) Collateral margin requirements on repurchase agreements.

(2) *Market risk.* Investment policies must set market risk limits for specific types of investments, the investment portfolio, or your institution. Your board of directors must establish market risk limits in accordance with these regulations and our other policies.

(3) *Liquidity risk.* Investment policies must describe the liquidity characteristics of eligible investments that you will hold to meet your liquidity needs and institutional objectives.

(4) *Operational risk.* Investment policies must address operational risks, including delegations of authority and internal controls in accordance with paragraphs (d) and (e) of this section.

(d) *Delegation of authority.* All delegations of authority to specified personnel or committees must state the extent of management's authority and responsibilities for investments.

(e) *Internal controls.* You must:

(1) Establish appropriate internal controls to detect and prevent loss, fraud, embezzlement, conflicts of interest, and unauthorized investments.

(2) Establish and maintain a separation of duties and supervision between personnel who execute investment